

APPENDIX B.

STATE OF NORTH CAROLINA COMMENTS

State Comments

This section provides the comments received from the State of North Carolina, Department of Administration and describes their impact on our report. Most of the comments we received were simply an agreement of our initial finding/recommendation. In a few cases, the State did disagree. However, in each case where the State disagreed with our finding/recommendation, we stand behind our original finding/recommendation.

The State did, however, make some corrections to the flow charts. In response, the necessary changes to the document were made. The flow charts in the text now reflect these changes.

Exhibit B-1 provides a summary of the comments received and details of our responses. A copy of the comments received from the State follow this exhibit.

EXHIBIT B-1

North Carolina Comment Responses

Finding	State's Comment	Peat Marwick's Response
1. The State should have a policy for identifying contracting opportunities.	The State agrees with the performance audit finding.	No response required.
2. The Division of Purchase and Contract needs more timely, detailed, and useful information on purchase activity of State agencies and departments.	The State agrees with the performance audit finding.	No response required.
3. The Purchase and Contract Division has not aggressively pursued innovative purchasing practices.	The State agrees with the performance audit finding.	No response required.
4. The State should increase the use of single prime contractors on capital projects.	The State indicated that it had no flexibility in selecting the contracting method to be used. The State Building Commission plans to reach no conclusions or recommendations until a report on the cost of contracting method is made to the General Assembly in 1995. Peat Marwick stands behind its original conclusions and recommendation, that, until the State develops specific strategies, including possible legislative changes, to realize the reported benefits from use of single prime contracts, the past practice of using multi-prime contractors will continue.	
5. The State should improve the procedures of architectural and engineering services.	<p>a. No evidence was presented to substantiate that the design fees are excessive.</p> <p>b. The State oversight and the professionalism of the design community limits the State's risk of change orders being issued to correct design deficiencies.</p> <p>c. No data was provided to indicate that the inspection of work is inadequate.</p>	<p>Peat Marwick stands behind its original conclusions and recommendations.</p> <p>a. In the absence of independent State estimates of design fees, the State is not in a position to determine the reasonableness of design fees.</p> <p>b. Good internal controls would provide for independent assurance of the reasonableness of change orders, rather than relying on the professionalism of the contractor.</p> <p>c. In the absence of a specific plan of inspection, the State is again relying on the professionalism of the architect or engineer.</p>
6. Purchase and Contract Division staffing levels have remained constant although the work load has decreased.	The State believes that the 11 staff identified need to be redirected to "non-purchasing" services and not eliminated.	Peat Marwick concurs with this response.
7. The State and federal surplus operations are duplicative and should be consolidated to reduce costs.	The State believes one location would best serve the customer but raised concerns about consolidating on the current property.	As suggested in the finding, additional analysis would be required concerning the suitability of the current site for consolidation.

EXHIBIT B-1
North Carolina Comment Responses (Continued)

Finding	State's Comment	Peat Marwick's Response
8. The amount of time required to procure goods and services is too long.	The State does not agree that the level of contract approval of the Board of Awards should be raised.	Peat Marwick stands behind its original recommendation.
9. Term contracts provisions result in higher prices to the State.	The State agrees to review term contracts upon renewal.	Peat Marwick concurs with this action.
10. The State has two contradictory policies on State agencies and departments purchasing goods and services from Construction Enterprises.	The State agrees with this performance audit finding.	No response required.
11. Staff resources used to develop product standards should be redirected to more productive use.	The State generally agrees with the finding.	No response required.
12. The Purchase and Contract Division is not provided clear authority to perform oversight reviews of purchase activities of State agencies and departments to ensure adherence to procurement policies and procedures.	The State agrees with this performance audit finding.	No response required.
13. Purchasing procedures are out of date and incomplete.	The State agrees with this performance audit finding.	No response is required.
14. State agencies lack useful information on available surplus property and incentives are lacking for agencies to report surplus property.	State supports a more detailed management information system but points out that a legislative change would be required to refund monies to departments turning in surplus.	No response required.
15. The State lacks a well-targeted program for meeting its contracting goals with minority-owned, women-owned, and disabled-owned businesses.	The State believes that additional staff and legislation is needed to implement a more aggressive strategy.	We support this comment but believe current staff could be used.



North Carolina Department of Administration

James G. Martin, Governor

James S. Lofton, Secretary

October 7, 1992

Mr. Curtis Clark, Director
Government Performance Audit Committee
Legislative Office Building
300 North Salisbury Street
Raleigh, North Carolina 27603-5925

Dear Mr. Clark:

Thank you for allowing those of us in the Department of Administration to review the information from Phase I of the Performance Audit of the Purchasing System.

We have reviewed the document carefully and prepared our comments, which are attached. The comments are in three sections--the Division of Purchase and Contract, the Office of State Construction, and Auxiliary Services (State and Federal Surplus Property).

In addition, we will be happy to meet with you and members of the audit team from KPMG Peat Marwick to discuss in detail the issues brought forth in this report.

Sincerely,

A handwritten signature in dark ink, appearing to read "Jim Lofton", written over the typed name "James S. Lofton".

James S. Lofton

JSL:bw

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October 7, 1992

The Performance Audit Report on Purchasing is generally accepted by the Division of Purchase and Contract. In the first approach, the audit team established a benchmark of generally accepted purchasing practices as promulgated by the National Association of State Purchasing Officials. (See Appendix A-1 through A-12.) A review of North Carolina's policy and procedures shows that the State is generally in compliance with what other states are doing. We are pleased that this is true.

GENERAL TECHNICAL CORRECTIONS

In general the Performance Audit team has established over-all understanding of most operating policies and procedures within the Division of Purchase and Contract. There are, however, a few basic corrections in the draft report which, we believe, should be corrected in the final document. These are pointed out below with page numbers:

Page 1.2: Eliminating "buy-local" policies: North Carolina does not have any preference program. Only in the case of a tie bid can the tie be broken in favor of the in-state vendor.

Page 2.1: Paragraph 4. Service contracts in excess of \$10,000 are awarded after approval from the Division of Purchase & Contract and the Secretary of Administration. These contracts are not taken to the Board of Award.

Page 2.4: Exhibit 2-2 concerning work flow for contracts under \$10,000. The very last block showing vendor notification should be under Agency's Property and Procurement Division Authority. The Division of Purchase and Contract does not become involved in purchases under \$10,000 unless specifically requested by the agency.

Page 2.5: Exhibit 2-3 on Work Flow of Contracts over \$10,000. Two separate charts are probably needed to show the work flow for a contract over \$10,000 that follows the sealed competitive bid process vs. a contract that involves a waiver of competitive bidding. One final step should be corrected on both charts. Certification is returned to the agency's procurement division, and the final step should be added which is for the agency to issue a Purchase Order

Page 2.8: Under the discussion of Term Contracts and in several instances thereafter, the term "negotiated" rates is used. The Division does not "negotiate" pricing. The pricing is received in sealed, competitive bids.

Page 2.9: Exhibit 2-6 Work Flow on Personal Service Contracts. Again, the Division is shown as the agency responsible for notifying vendors. This function is handled by the agency's procurement division.

Page 2.11: Organization. Since the inception of the performance audit, a change in the organizational structure of the purchasing teams has occurred. Teams 3 and 4 have been combined into Team 4. Also, printing as a commodity was omitted from Team 4 in your report. In order to keep the alignment in order, Team 7 has become Team 3. Team 6 handles Consultant and Service Contracts. Commodities are as otherwise listed.

Page 2.12: Qualified Products Lists. The Division, at the present time, maintains 21 QPL's or Qualified Product Lists. Each list may contain more than one qualified product, i.e. QPL 6730-P&S-1AG Projectors, Screens and Related Items.

Page 2.13: Board of Award. The Board of Award is comprised of members of the Advisory Budget Commission. The Advisory Budget Commission is composed of members of the General Assembly and members of the business community (dependent upon appointments.)

Page 2.13: Other general observations.

Paragraph 1: Same comment from above concerning Qualified Product Lists should apply.

Paragraph 2: Throughout the report, minority business or minority-owned businesses are referred to. The term "special interest" business would be a preferred term so as to include women-owned businesses and handicapped-owned businesses.

As noted above, these are purely technical corrections which we will be happy to discuss in more detail with the Performance Audit Review Team.

COMMENTS ON FINDINGS

In the remainder of this document, the Division of Purchase and Contract (the Division) will comment on each finding outlined in the draft report, with the exception of those which concern the Office of State Construction (findings 4 and 5) and those which concern the State and Federal Surplus Property Agencies, (Findings 7 and 14.) The comments from the Division are not intended to disagree with the findings of the audit team, but simply to provide additional information and clarification, as well as concerns of the Division.

FINDING 1: The State should have a policy for identifying contracting out opportunities.

We agree that privatization of services is one valid approach to meeting the State's needs more efficiently. The Division has often assisted agencies with their investigations of possible costs, benefits, and sources of outside services so informed decisions can be made on whether to keep services in-house or contract them out.

The Department of Transportation's recent analysis of roadside mowing contracts offers a good example of such direction. The General Assembly requested a one-year comparison of costs for each district. Results in this case showed that a combination of state-provided services and outside contractors offered the best overall value at this time. Two points were well made in this discussion: 1) Both outside contractors and in-house services have advantages; choices are best made on a case-by-case basis. 2) Decisions should be reviewed periodically, however well the current method is working.

Examples of other services that have been contracted out include food service contracts at the various university campuses, cleaning of practically all government buildings in the State complex area as well as rest area/welcome centers throughout the State, plus administration of the Medicaid program and the State Employees' Health Plan. Some of these services, as well as many others, have been contracted out since the mid 1970's.

FINDING 2: The Division of Purchase and Contract needs more timely, detailed, and useful information on purchase activity of State agencies and departments.

We basically concur with this finding and the performance audit committee's recommendation. We do offer the following comments, suggestions and/or concerns for consideration during the planning process:

1. To develop and implement a management information system to provide useful information on purchase activity to the Division requires input from ALL State agencies, not just Cabinet agencies. State agencies are defined and quantified as follows:

- State departments -----	24
- State institutions -----	25
- State universities -----	17
- Community colleges -----	58
- Public school units -----	133
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TOTAL -----	257

NOTE: In addition, there are approximately 2,500 local government purchasing offices throughout the State that by Statute can participate in purchasing from our contracts.

In order to track and monitor purchase activity of State Agencies for "goods and services", the following purchase information is needed:

- purchases from term contracts by agency, contract, vendor, commodity, quantity, unit of measure, and volume.
- purchases made in the open market (non term contract) by agency, commodity, vendor, quantity, unit of measure and volume.
- purchases within the agency delegation limit by agency, purchase order, commodity, vendor, quantity, unit of measure and volume.
- quarterly summary of purchases from Special Interest vendors by special interest category, by term contract or open market commodity/service, by aggregate totals and by percentage of total purchase volume. (See attached reporting form, Attachment A, and response to Finding Number 15.)

As stated in your findings, we currently collect limited information through our management reporting system (NCAPS) in summary form. Historically, reports have been provided on request to the legislature and legislative support staff, internal management, State agencies, news media, vendors, etc.

FINDING 2 - Continued

Purchase activity data was received in summary form from State Agencies as follows for the last fiscal year:

<u>State Agency Category</u>	<u>Special Interest Reports Rec'd</u>	<u>Purchase History Summary Rec'd</u>
State departments	95 %	80 %
State institutions	12 %	73 %
State universities	70 %	70 %
Community colleges	72 %	65 %
Public school units	0 %	1 %

2. Purchases within the Agency delegation limits (less than \$10,000 except universities which is \$25,000) should be made available when/as requested by the Oversight Review Team recommended in Finding/Recommendation No. 12.
3. Reference is made in this finding that there is a "new accounting system" being studied by the Controller's Office. Unless this new accounting system is different from the one shown to this Division in 1990, we have reservations as to whether it will satisfy the requirements for "overseeing purchasing activities" of all State agencies, institutions, universities, community colleges and public school units.

Documents referenced below (Attachment B) support our position that the purchasing module of the accounting system in the Office of State Controller SHOULD NOT BE CONSIDERED AS A REPLACEMENT to perform the "procurement of goods and services" function of this Division.

- Letter from James S. Lofton to Fred W. Talton dated November 6, 1989.
- Memorandum from William J. Stuckey to Jim Macauley dated August 23, 1990, MSA Purchasing Module

We agree that the Division should be involved in not only the implementation process, BUT ALSO THE PLANNING PROCESS AND COORDINATION OF EFFORTS WITH USERS OF THE DIVISION as it effects our responsibilities in data collection, review and/or reporting.

FINDING 3: The Purchase and Contract Division has not aggressively pursued innovative purchasing practices

We basically agree that the Division has not been aggressive in the area noted but has approached in a conservative manner changes to existing contracts. Along this line, the Division currently surveys end users to gain the benefit of their input regarding concerns, suggested contract changes, identification of heavy use items, etc., before preparing new bid invitations. In addition to the use of agency surveys, we would envision concentrated efforts by Division personnel to evaluate new purchasing methodologies in the marketplace and/or in use in other states to determine the viability of adoption of just-in-time or other concepts in specific commodity areas to benefit end users on a statewide basis.

The Division would like to point out examples of a cross section of contracts that we think reflect sound, fundamental approaches to the purchasing process:

Several of our office equipment contracts have been awarded on total cost concepts using economic indicators to protect against unreasonable increases in the cost of maintenance and supplies after the first year of ownership. The Division has also utilized weighted bids on groups of similar items in office supplies, pens, envelopes, binder contracts and others to minimize the number of awarded contractors on similar small dollar items to reduce processing costs for the agencies. In addition, most of our bid invitations for various kinds of furniture are being revamped with the establishment of new or revised qualified products lists and by using award criteria geared toward single rather than multiple awards resulting in considerable cost savings.

In regards to electronic data interchange to purchase commodities, the Division recognizes the potential for placing orders using this technology. However, we also recognize that most of our agencies and potential bidders do not currently have this technology available. Agencies contacted that are currently utilizing this methodology indicate that they are having to dual entry purchase order information to capture data and that the number of vendors that offer this technology is extremely limited.

Finding 4

The method of contracting for construction of capital projects is governed by GS 143-128. There is no flexibility in selecting the contracting method used.

Legislation in 1989 allowed state agencies to bid projects in the alternative of single-prime or multiple-prime; however, if the public body chooses to use the single-prime contracting system, it must also seek bids using the multiple-prime contracting system and award the project to the lowest responsible bidder or bidders.

The legislation also charged the State Building Commission with responsibility to study and compile data on the total verifiable contractual, legal, and administrative cost to the public. A report from the State Building Commission is due to the 1995 Session of the General Assembly. Until that time, the State Building Commission has elected to make no conclusions or recommendations.

Finding 5

The State Building Commission which was established in 1987 was charged with adopting rules establishing standard procedures and criteria to assure that the designer selected for each state capital improvement project has the qualifications and experience necessary for that capital improvement project. The Commission has adopted administrative rules governing the selection of design firms. All state agencies are required to follow these procedures.

With regard to the recommendations contained on page 3.16 of the report, there is no evidence given to substantiate that the design fees negotiated by the State Construction Office are disproportionate or excessive when compared with fees paid for state work in other southeastern states.

The State Construction Office routinely monitors change orders on state projects to assure that the proper reason for the change is indicated on the change order form. It is acknowledged that the designer may have opportunity for conflict of interest particularly if a design error is involved; however, with State Construction's close scrutiny of the change order process it is believed that the occurrence of such activity is minimal. It is our opinion that the professionalism of the design community involved in state construction projects further limits this activity.

GS 133-1.1 requires that on all projects requiring the services of either an architect or engineer that the architect or engineer shall conduct frequent and regular inspections and issue a signed and sealed certificate of compliance that the inspections of the

construction have been conducted with the degree of care and professional skill and judgment ordinarily exercised by a member of the respective profession; and to the best of their knowledge and in the professional opinion of the architect or engineer that the contractor fulfill the obligations of the plans and specifications and the contract.

There is no data provided to indicate that the existing statutes and procedures governing the inspection of work is inadequate to assure protection of the public.

September 25, 1992

FINDING 6: Purchase and Contract Division staffing levels have remained constant although the work load has decreased.

In 1980, the Division purchased approximately \$300 million in commodities and services. In 1985, we were purchasing approximately \$750 million. At that time, the Division requested the General Assembly increase the delegation from \$2,500 to \$5,000 to absorb increased demands on the current staff. In 1990, the delegation was further increased to \$10,000. Again, this increase was requested in order to maintain the workload at current staffing levels. At the present time, we are purchasing over \$1 billion in goods and services.

Purchaser's responsibilities extend beyond just buying a product or service. A significant portion of their time is spent providing technical assistance to other agencies and in educating vendors seeking to do business with the State. Agencies depend heavily on our staff for information on availability of suppliers, market conditions, statutory requirements, compliance with federal standards, and explanations of procedures. The Division staff is also called upon to hold more training sessions than ever before for public school, university, community college, and agency groups. It would be difficult to estimate the man hours spent in training sessions. Purchasers hold more pre-bid and pre-proposal conferences with vendors than ever before in an effort to generate favorable competition. Our staff spends a considerable amount of time with vendors in an effort to understand product offerings which they have, as well as helping them understand the statutory and legal requirements of doing business with the State.

In addition, it is important to recognize that Division personnel are spending an enormous amount of time with the staff of the Attorney General's Office. Bid protests have grown in considerable numbers, and the time required to deal with legal issues has grown even more. During the last 12 months, the Division has handled 93 protests--62 of which were resolved at the team level, 26 with the State Purchasing Officer and Chief of Purchasing, and 5 which have gone to the Office of Administrative Hearings. In addition, we are spending much time in an effort to educate people in problem prevention.

The recommendation to cut the staffing levels of the Division by 11 people does not consider our responsibility as a "customer-focused service" agency and for the "non-purchasing" activities with which we are involved. North Carolina operates the most comprehensive purchasing program of all the states. No other state has the responsibility for the public school system, most have no involvement with local governments, and many do not include the university system or the highway departments in their responsibility.

As an example, Division personnel have spent several thousand man hours in recent months on the furnishings for the Education and Revenue Buildings. According to the architect's estimate this has resulted in a savings in excess of \$2 million for the State of North Carolina. For these reasons, we do not concur with the recommendation of staff cuts. Cuts in Division staff would not save the State \$440,000, but potentially would cost the State millions of dollars.

FINDING 6 - Continued

Reorganization or redirection of some Division personnel is envisioned. We have already redirected one purchasing position to the function of agency-vendor relations and reduced the number of purchasing teams from 7 to 6. Two staff members who have experience with our automation project certainly could be transferred to this project on a full-time basis. This would accelerate the improvement of our automation program (Finding 2). The Performance Audit report also recommends that the Division perform oversight or compliance reviews of agency purchasing (Finding 12). When this is implemented, it will be with Division personnel who know purchasing rules, regulations and procedures. To be efficient, a compliance unit would require a supervisor, plus three compliance teams (6 people). (With the number of agencies which the Division serves, we believe that any less than 3 teams would fail to get the job done.) In order to fill the gap on the purchasing teams, the State Purchasing Officer should be given the authority to raise and/or lower the purchasing delegation for individual agencies based on information received from the compliance unit. In addition, the \$25,000 delegation granted to "responsible constituent institutions" of the university system should be removed, and all future delegations to be authorized by the State Purchasing Officer. (This would require a change in the General Statutes.)

To demonstrate cost savings that could be realized through a compliance team, let us examine the recent purchasing irregularities in the Department of Correction. Through the misuse of contract purchases, it is estimated that the Department of Correction in clothing purchases alone overspent some \$15 million. In examining two recent bids issued by the Division for clothing for the Department of Correction, a cost saving of \$352,000 can be shown. The company through which Correction was placing orders was 20 to 25% higher than the awarded vendor. If this misuse of contract purchases had been noted by a compliance team, as few as 10 bids would have resulted in savings of \$3 million or more for the State of North Carolina. The redirection of staff, therefore, would result in substantially more savings than the \$440,000 cited in the Performance Audit Report.

* RESPONSE TO FINDINGS/RECOMMENDATIONS CONCERNING
THE STATE AND FEDERAL SURPLUS PROPERTY AGENCIES
INCLUDED IN THE PERFORMANCE AUDIT REPORT

Finding 7 - The state and federal surplus operations are duplicative and should be consolidated to reduce costs.

Consolidating Locations

According to the National Association of State Agencies for Surplus Property, in about 90 percent of the states across the country the state and federal surplus property operations or facilities are at one location. However, each agency has separate employees, warehouse, storage lots, etc. This separation is required by Federal Regulations. It is agreeable that combining the locations would offer "one stop shopping" to patrons of both facilities. However, it is questionable whether additional warehouse space could be located at the Federal Surplus Property location due to lay of land. The old Farmer's Market site could be considered.

A survey of surplus property operations in seven adjoining states was compiled. The results present an overview of how North Carolina operations compare with other states in the number of staff persons, disposition, the dollar amount of surplus handled, etc. A copy is attached.

Space Utilization

The report indicated that only 50 percent of the space was being utilized by State Surplus Property. On the contrary, the State Surplus Property operation utilizes 100 percent of its warehouse capacity. In fact, at times State Surplus Property has been unable to accept surplus items from agencies due to a lack of available space. Additional space is needed as property is being stored in hallways.

In regard to excessive property space, yard space is utilized at 60 percent capacity at all times. During seven months of the year, yard space is filled to capacity due to the large quantity (approximately 400-500) of vehicles stored and processed for bid sales.

In addition, another portion of the yard and building space is designated to maintain a paper recycling operation for state agencies.

Federal Surplus Property cannot control the amount of property that is made available. The amount of space available allows the agency the convenience of handling large influxes of property.

FINDING 8: The amount of time required to procure goods and services is too long.

One item in the process noted by the Performance Audit needs clarification. The purchaser presents the recommendation to the Board of Award and then certifies that information to the agency. The bids are not given to the Board of Award and then returned to the purchaser. The Board of Award is a scheduled, weekly, meeting lasting approximately one hour.

One area that raises a question is the amount of time it takes to process a requisition from receipt to award centers around the return of the bids to the agency for their review and concurrence. Although this appears to be routine and an automatic step in the process, it is done to allow the agency to review and justify that the item bid does meet specifications, budget guidelines, and the needs of the agency. While a limited number of agency reviews are conducted by telephone or fax, the overwhelming majority of bid packages are returned to the agency for review at the specific request of that agency, which is our customer. If this does prolong the process, then the agency should reduce the turnaround time back to the Division.

It is also important to note that through the compliance unit, we believe we will be able to obtain certain information from the agencies which would reduce or eliminate the need for review by the agencies of every bid, thus shortening the time required in the process. The Division will review this process and issue a policy to be included in the new Purchasing Manual.

Raising the requirement for approval by the Board of Award to a specified dollar limit is not recommended by this Division. The Board of Award is an arm of the Advisory Budget Commission and is comprised of legislative members (chairs of the various financial bodies within the General Assembly) and private citizens, and this gives them the opportunity to review the line item expenditure of funds. They also act as a good check and balance to ensure that the awards are made in the best interest of the State, and it provides the opportunity to see how appropriations are used.

Additionally, the Board of Award, because of its membership, serves as legislative oversight for the Division. Because of this relationship, considerable staff time is saved inasmuch as we do not, like other states, spend time and effort preparing and presenting various materials to one or more legislative committees on a regular basis.

FINDING 9: Term Contracts result in higher prices to the State.

The statistical data gathered by the Division has historically shown that the use of term contracts effectively result in lower prices. Recent analysis of office and medical supplies indicates this fact is simply not true. See Attachment D concerning a study of medical supplies prepared for Senator J. K. Sherron and a study of comparative prices on office supplies. In areas where it is determined that term contracts do not offer the best buy, we have reviewed these items and have taken the necessary action. The cancellation of the microcomputer contract is an excellent example of this.

The Division currently has provisions in some of our contracts that allow agencies to purchase locally. This is being looked at constantly when we renew our contracts with changes made as needed.

We also include language in some of our bid invitations/contracts that:

- 1) Places a ceiling dollar limit which requires agencies to submit their requirements to the Division when the request exceeds the noted limit.
- 2) Includes "abnormal quantity" provisions which permits the Division to consider alternative purchasing methods if a price advantage exists due to the size of the purchase.
- 3) Provides a floor, so that when ordering less than the floor the contract should not be used.

It should be noted that the Division is currently reviewing all existing term contracts in regards to minimum and maximum dollar levels as noted above to ensure the best value is received in all affected commodity areas.

In addition, there seems to be an area of conflict that may merit discussion. This issue is in respect to possibly obtaining lower prices by bidding large quantity requirements as opposed to just-in-time concepts which puts the burden of maintaining sufficient inventory levels to satisfy total agency needs on the vendor. These two different approaches may have to be analyzed on an agency by agency basis to determine the most cost effective method of procuring goods.

FINDING 10: The State has two contradictory policies on state agencies and departments purchasing goods and services from Correction Enterprises.

The Division agrees with this finding. For informational purposes, a supportive document from William Stuckey to George Morris addressing some of the concerns in this area is attached. (Attachment D)

The Division believes that development of a policy that addresses the appropriate size, capacity, and potential benefits to prisoner rehabilitation concerning the manufacture of goods and provision of services by Correction Enterprises should be addressed by the Department of Correction.

FINDING 11: Staff resources used to develop product standards should be re-directed to more productive use.

Item 1. Establish a program for the prioritization of commodities needing development of specification standards.

Agree. This can be done on an ongoing basis by developing a priority list agreed upon by the State Purchasing Officer, Chief of Purchasing and the Chief Standards Engineer.

In regard to standards for telecommunications products, the authority for development of specifications for these products is delegated, by statute (GS 143B-426.39 (14)e), to the State Telecommunications Services. Standard specifications for microcomputers can best be utilized when making initial purchases of the equipment. Since practically all of the agencies have existing computer equipment, compatibility becomes an issue that inhibits, or prevents, the use of standard specifications. This being the case, each purchase would require a unique specification; therefore, specifications should be developed in accordance with the policies of the IRMC.

Item 2. Evaluate the adoption of standards that have already been developed by other entities, such as other states and the federal government.

Agree. The Standards Section currently uses many standards developed by National entities such as Society of Automotive Engineers (SAE), General Services Administration (GSA), etc. We also use specifications from other states as the need arises, usually on a monthly basis.

Item 3. Evaluate the need to reassign standards engineers to the Purchase & Contract Division buyer teams.

The Standards Section of the Division is currently composed of an Engineering Manager and four standards engineers. Responsibilities for this section include:

- (1) maintaining all standard specifications and qualified product lists (approximately 143 specifications and 21 QPL's).
- (2) conducting industry surveys to develop new specifications and qualified product lists for various commodities
- (3) conducting tests to determine quality of products and compliance with specifications and acceptance for QPL's

Development of standard specifications and QPL's is becoming more necessary in the purchasing environment. They reduce the cost of the commodity, ensure good quality, provide a good basis for legal support of contracts, provide for easy and timely evaluation of bids, and minimize bidder protests. It has been determined, for example, that the savings for the State in the development of the QPL for Open Office Systems has already resulted in savings of over \$2 million in the DOT, Revenue, and Education purchases alone. Therefore, the Division and the taxpayer would continue to benefit greatly from a strong Standards Engineering Section. Commodities will be assigned specifically to each engineer to maximize utilization.

FINDING 12: The Purchase and Contract Division is not provided clear authority to perform oversight reviews of purchase activities of state agencies and departments to ensure adherence to procurement policies and procedures.

Agree. A compliance unit would be beneficial and would result in substantial savings for the State. However, in order for a compliance unit from the Division to be effective and not have impeding resistance from using agencies, the mandate should be explicit. An outline for establishment of an oversight review team has already been outlined in Finding 6. With this type of quality management unit, policy and practice would attribute to savings far in excess of the \$440,000 outlined in Finding 6.

FINDING 13: Purchasing procedures are out of date and incomplete.

This finding is true. A draft of the 1992 Purchasing Manual will be available within the next few months. Informal purchasing procedures for all agencies should be established and published in the Purchasing Manual. Established informal procedures for all agencies would certainly be less confusing to the vendor community. With the implementation of a compliance unit, established informal procedures would be a necessity.

Ethics is a topic on which all public purchasers must focus. The N. C. General Statutes provide a clear outline of prohibitions and penalties for acceptance of bribes, gifts, favors, etc. G.S. 143-63 concerns Department of Administration personnel, and G.S. 133-32 concerns agency personnel. Inclusion of this information in the N. C. Purchasing Manual could certainly serve as a constant reminder.

Information on the filing of bid protests are currently outlined in the N. C. Administrative Code, Subchapter 5A .0010 and in 150B of the General Statutes. The Division is considering appropriate and proper placement of procedures associated with bid protests and will publish these procedures in the Purchasing Manual and the vendor manual and other appropriate places. However, we disagree completely that the Invitation for Bid package should include this information.

Finding 14 - State agencies lack useful information on available surplus property and incentives are lacking for agencies to report surplus property.

On-Line Inventory Management

An on-line system that could provide agencies with a listing of surplus property, its condition, location, a fair-market price, etc. could provide a more adequate inventory of property. The value or the price at which an item is sold is determined by or based on previously recorded sales.

The Department of Administration is in the process of identifying automation needs for State Surplus Property. If it is determined to be cost-effective or justifiable to implement an automated or on-line system of all state/federal surplus property which can be accessed by all state agencies, including public schools, community colleges, and the university system, then the surplus agencies will pursue funding from the General Assembly to support an automated system.

Federal Surplus' present computer system could be arranged to furnish information on certain types of property. All vehicles and property that have original acquisition cost of \$5,000 are in the computer.

Reimbursement to Agencies for Property Sold

Monies received from the sale of surplus property is deposited into the General Fund as required by General Statute. Returning monies acquired from the sale of surplus items to the individual agencies would require legislative action and may not necessarily serve as an incentive or benefit the agencies as monies to purchase equipment are obtained from the General Fund.

FINDING 15: The State lacks a well-targeted program for meeting its contracting goals with minority-owned, women-owned, and disabled-owned businesses.

Since the inception of Executive Order 77, the database for monitoring the volume of business the State does with special interest vendors has grown from virtually "no information available" to a well defined system of tracking the amount of money spent. Without additional staff and without additional funding, the Division has worked diligently to provide substance and merit to the "goals" program. We have exceeded the goal outlined in the Executive Order. The program has grown from \$3 million in 1986 to \$51 million in 1991.

In the last year the Division has certified 473 special interest businesses. Additionally, we have conducted twenty-four (24) seminars across the state on the certification process, as well as how to do business with the State. Our personnel have made approximately twenty (20) additional presentations to various groups at their request on these and related subjects. A standard certification application has been developed to certify vendors in both the Department of Administration and the Department of Transportation, thereby cutting the cost of printing.

To date, two attempts have been made with the N. C. General Assembly to obtain appropriate legislation to define this program and to create clear authority for certain activities which we believe are necessary for the continued success of this program. Both attempts have failed. (See Attachment E. for copy of suggested bill.) The reorganization of this effort combined with clear legislative authority, in our opinion, is needed to implement an aggressive and centralized program.